

## Message Text

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ORIGIN EB-07

INFO OCT-01 EUR-12 EA-06 ISO-00 FEA-01 TRSE-00 ERDA-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01

H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03

SAM-01 OES-03 SP-02 SS-15 STR-01 FRB-03 INRE-00

NSCE-00 SSO-00 /090 R

DRAFTED BY EB/ORF/FSE:MVCREEKMORE:PDTALOR:MEP

APPROVED BY EB/ORF/FSE:SWBOSWORTH

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FEA - MR. MALIN

TREASURY - MR. PARSKY

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FM SECSTATE WASHDC

TO USMISSION OECD PARIS IMMEDIATE

AMEMBASSY BONN IMMEDIATE

AMEMBASSY ROME IMMEDIATE

AMEMBASSY BERN IMMEDIATE

AMEMBASSY STOCKHOLM IMMEDIATE

AMEMBASSY COPENHAGEN IMMEDIATE

AMEMBASSY DUBLIN IMMEDIATE

AMEMBASSY LUXEMBOURGH IMMEDIATE

AMEMBASSY LONDON IMMEDIATE

AMEMBASSY THE HAGUE IMMEDIATE

AMEMBASSY BRUSSELS IMMEDIATE

AMEMBASSY OTTAWA IMMEDIATE

AMEMBASSY TOKYO IMMEDIATE

AMEMBASSY VIENNA IMMEDIATE

AMEMBASSY MADRID IMMEDIATE

AMEMBASSY ANKARA IMMEDIATE

AMEMBASSY OSLO IMMEDIATE

USMISSION EC BRUSSELS IMMEDIATE

AMEMBASSY WELLINGTON IMMEDIATE

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C O N F I D E N T I A L STATE 056864

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: PRELIMINARY POSITION PAPERS FOR SPC AND GOVERNING BOARD CONSIDERATION

1. FOR LONDON, COPENHAGEN: PLEASE PASS MESSAGE IN PARA 4 AND PAPERS IN PARA 6 AND PARA 7 TO JOHN WILTON, UK FOREIGN OFFICE, AND GUNNAR RIBERHOLDT, DANISH FOREIGN OFFICE.

2. FOR OECD PARIS: PLEASE PASS PAPERS IN PARA 6 AND PARA 7 TO SECRETARIAT. ADVISE THAT THEY ARE OUR FIRST DRAFTS AND THAT UK AND DENMARK, AS CO-CONTRIBUTORS, WILL SEND THEIR COMMENTS AND SUGGESTIONS DIRECTLY TO THE SECRETARIAT. WE WILL INCORPORATE THEIR IDEAS INTO THE PAPERS NEXT WEEK IN PARIS.

3. FOR OTHER IEA CAPITALS: PLEASE PASS MESSAGE IN PARA 5 AND PAPERS IN PARA 6 AND PARA 7 TO APPROPRIATE IEA/SPC OFFICIALS.

4. QUOTE: ATTACHED ARE OUR FIRST EFFORTS AT PRELIMINARY POSITION PAPERS ON OIL PRICES AND SECURITY OF SUPPLY. WE REALIZE THEY ARE SPARCE, BUT WE DO NOT BELIEVE IT DESIRABLE TO GO MUCH FURTHER ON THEM AT THIS TIME. YOUR COMMENTS AND SUGGESTIONS WOULD BE APPRECIATED. BECAUSE OF TIME PRESSURES, WE RECOMMEND THAT YOU SEND YOUR COMMENTS AND

SUGGESTED ALTERATIONS DIRECTLY TO THE SECRETARIAT, AS WELL AS COPIES TO US. WE CAN INCORPORATE THEM INTO THE PAPERS NEXT WEEK IN PARIS. WE ARE SENDING COPIES OF OUR PAPERS TO OTHER IEA MEMBERS AND THE SECRETARIAT WITH THE NOTE THAT YOUR CONTRIBUTION WILL BE INCORPORATED INTO THE FINAL PRODUCT NEXT WEEK.

END QUOTE.

5. QUOTE THESE PRELIMINARY POSITION PAPERS ON OIL  
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PRICES AND SECURITY OF SUPPLY ARE THE US'S FIRST DRAFTS. COMMENTS AND SUGGESTIONS OF THE CO-CONTRIBUTORS, DENMARK AND THE UK, WILL BE INCORPORATED INTO THE PAPER BEFORE THEY ARE CONSIDERED BY THE SPC AND GOVERNING BOARD.

END QUOTE.

6. QUOTE IEA POSITION PAPER: OIL PRICES

SUBJECT: WORLD OIL PRICES HAVE RISEN RAPIDLY DURING THE PAST TWO YEARS AS A RESULT OF ADMINISTRATIVE ACTION BY A RELATIVELY SMALL GROUP OF PRODUCING COUNTRIES WORKING IN CONCERT. THE RESULT HAS BEEN SEVERE ECONOMIC DISRUPTION IN MANY CONSUMING COUNTRIES, ESPECIALLY DEVELOPING COUNTRIES.

BACKGROUND: PRODUCERS HAVE USED THEIR OLIGOPOLY POWER TO MAINTAIN PRICES FAR ABOVE THE LONG-TERM COST OF ALTERNATIVE ENERGY SOURCES. IN THE LONG-TERM, MARKET FORCES, ACCELERATED BY GOVERNMENTAL ACTION IN BOTH SUPPLY AND DEMAND, CAN FORCE THE REAL WORLD PRICE TO AN EQUILIBRIUM LEVEL.

ARGUMENT: IF PRODUCERS PERSIST IN MAINTAINING ARTIFICIALLY INFLATED PRICES, CONSUMING COUNTRIES MAY BE FORCED TO UNDERTAKE ENERGY-PRODUCING PROJECTS INVOLVING UNIT COSTS ABOVE THE LEVEL OF LONG-RUN MARKET EQUILIBRIUM. IN THIS EVENT, PRESENT OPEC COUNTRIES MAY SEE THEIR MARKETS REDUCED BELOW THE SIZE CONSISTENT WITH THE EQUILIBRIUM PRICE. THEREFORE, BOTH PRODUCERS AND CONSUMERS HAVE AN INTEREST IN AN EARLY PRICE REDUCTION TO THE LEVEL OF LONG-TERM EQUILIBRIUM.

OBJECTIVE: IEA COUNTRIES ARE AGREED ON THE DESIRABILITY OF AN EARLY AND SUBSTANTIAL FALL IN THE REAL WORLD PRICE OF OIL. WE WANT TO AVOID EXCESSIVE FINANCIAL ACCUMULATIONS BY OPEC GOVERNMENTS AND EXCESSIVE TRANSFERS OF REAL RESOURCES FROM CONSUMING TO PRODUCING COUNTRIES. LIKEWISE WE OPPOSE MULTITIER PRICING IN WHICH DEVELOPING COUNTRIES WOULD PAY LESS FOR OPEC OIL THAN IEA COUNTRIES. RECOGNIZING THE PITFALLS OF INDEXATION --  
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THAT IT RECYCLES INFLATION, LEGITIMIZES THE OPEC PRICE AND CREATES ITS OWN MARKET INEFFICIENCIES, WE WOULD NOT CONSIDER INDEXATION UNTIL MORE EXTENSIVE ANALYSIS IS DONE AND ONLY IN COMBINATION WITH A SUBSTANTIAL PRICE CUT.

LINES TO TAKE:

A) WE SHOULD SEEK TO INCLUDE OIL PRICES ON THE AGENDA.

B) WE BELIEVE AN EARLY REDUCTION IN THE PRICE OF OIL IS IN THE LONG-TERM BEST INTERESTS OF BOTH PRODUCERS AND CONSUMERS.

C) WE ARE WILLING TO CONSIDER MEANS OF ASSURING THE PURCHASING POWER OF OIL EXPORT EARNINGS IN EX-

CHANGE FOR A PROMPT AND SUBSTANTIAL DECREASE IN PRICE  
ACCOMPANIED BY ASSURED ACCESS TO PETROLEUM SUPPLIES.

7. QUOTE

IEA POSITION PAPER: SECURITY OF SUPPLY

SUBJECT: THE OIL EMBARGO REVEALED THE VULNERABILITY OF  
CONSUMER NATIONS TO FOREIGN SUPPLY DISRUPTIONS AND DE-  
MONSTRATED THE IMPORTANCE OF SECURITY OF FUTURE SUPPLIES.

BACKGROUND: THE IEP DIMINISHES THE LIKELIHOOD OF FUTURE  
EMBARGOES AND ENCOURAGES LONG-TERM COOPERATIVE EFFORTS TO  
REDUCE OUR DEPENDENCE ON IMPORTED OIL. NEVERTHELESS, IEA  
MEMBERS WILL NEED OPEC SUPPLIES TO MEET AN IMPORTANT PART  
OF THEIR ENERGY NEEDS FOR SEVERAL YEARS.

THE OPEC NATIONS CAN RESTRAIN SUPPLY TO PROP UP PRICES  
NOW. BUT THEIR FUTURE MARKETS WILL BE ERODED IF THEY PER-  
SIST IN THEIR DEMANDS FOR EXCESSIVE PRICES.

ARGUMENT: WE SEE LITTLE ADVANTAGE IN SEEKING A COMMIT-  
MENT FROM OPEC NOT TO ENGAGE IN FUTURE EMBARGOES. SUCH  
AN AGREEMENT, IF IT COULD BE NEGOTIATED, WOULD NOT LIKELY  
DETER THEM FROM USING OIL AGAIN FOR POLITICAL PURPOSES.  
IT COULD WEAKEN CONSUMER RESOLVE TO REDUCE DEPENDENCE ON  
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IMPORTED OIL.

THERE MIGHT BE A MUTUALITY OF INTEREST IN SEEKING GENERAL  
COMMITMENTS ON LONG-TERM SUPPLY AND MARKET ARRANGEMENTS.  
PRODUCERS WOULD GAIN FROM ASSURANCES OF LONG-TERM MARKETS  
AND STABLE EARNINGS. CONSUMERS MIGHT GAIN FROM ASSURANCE  
OF AVAILABILITY OF FUTURE SUPPLIES AT ACCEPTABLE PRICES.  
ON THE OTHER HAND, SUCH UNDERSTANDINGS MIGHT DELAY EFFORTS  
TO BRING ON ALTERNATIVE SUPPLIES IN CONSUMING COUNTRIES.

THE IEA SHOULD NOT ADVOCATE LONG-TERM CONTRACTS FOR SPEC-  
IFIC QUANTITIES OF OIL SINCE THEY MAKE SUPPLY PATTERNS  
MORE RIGID AND REDUCE THE IMPACT OF MARKET FORCES ON PRICE.  
THE IEA SHOULD NOT ENCOURAGE BILATERAL DEALS BECAUSE THEY  
ARE CORROSIVE TO CONSUMER SOLIDARITY.

OBJECTIVES: AT THE CONSUMER-PRODUCER CONFERENCE, WE SHOULD  
SEEK TO DETERMINE IF A TRUE MUTUALITY OF INTERESTS COULD  
BE SERVED BY GENERAL COMMITMENTS ON LONG-TERM SUPPLY  
ARRANGEMENTS.

LINES TO TAKE

-- -- SINCE SECURITY OF SUPPLY AND OIL MARKETS IS AL-  
-- READY ON THE AGENDA FOR THE CONSUMER-PRODUCER  
-- CONFERENCE, WE SHOULD USE THE OPPORTUNITY TO DE-  
-- MONSTRATE THE IMPORTANCE WE ATTACH TO THE ISSUE  
OF SUPPLY.  
-- ON THE OTHER HAND, WE SHOULD NOT PRESS FOR AN  
OPEC COMMITMENT AGAINST FUTURE EMBARGOES. SINCE  
SUCH A COMMITMENT WOULD NOT LIKELY DETER OPEC'S  
USING OIL FOR POLITICAL PURPOSES, IT WOULD GIVE  
US LITTLE CONFIDENCE. INGERSOLL

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## Message Attributes

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